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The Honorable William J. Casey
Director of Central Intelligence Agency
Washington, D.C. 20500

Dear Mr. Director:

Having served two terms in the U. S. Senate, 10 years of which I was a member of the Finance Committee, I know how important tax reform is. But even more important is the security of our nation.

When the House and Senate conferees begin their deliberations on tax reform, there will be at least one matter on their agenda directly affecting our national security both in military and economic terms. That is, the possible dilution of tax code incentives now used to encourage development of domestic petroleum reserves.

Since everything in our economy starts with energy and nothing starts without it, developed domestic petroleum reserves are absolutely vital.

The danger of this dependency was proven to us twice in the recent past (1973 and 1979) when we became dependent upon unstable foreign governments for 35% or more of our crude oil needs. The importers embargoed us, dictated prices and disrupted many of our businesses. This so threatened us that President Carter declared that America has "vital interests" in the Middle East and "whatever force may be required to protect it would be committed."

Since they have already demonstrated that they can and will dictate to us as our dependence upon them rises to 35% or above, it is obvious that we must never again allow that to happen.

The only way for us to avoid repeating that mistake again is to continue discovering and developing petroleum reserves here in the United States. Independent oil and natural gas producers drill approximately 90% of United States exploratory wells and 87% of the total wells drilled. It is obvious that the only way for us to find the needed reserves to keep us free is to maintain incentives for our domestic independent producers to operate at a high rate. Incidentally, this was proved dramatically by passage of the Natural Gas Policy Act in 1978 with its incentive pricing. Independent producers, responding to the incentives, found so much natural gas that the price of natural gas experienced a dramatic decline.

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Five years ago when incentives to drill were strong, the nation's active rotary rig count (true measure of drilling activity) rose to 4,531. At that time, we were finding an average of 30 new discoveries of oil and natural gas a week. As of last Monday, June 30, 1986, the active rig count had dropped to 697. We are now finding an average of only 3 new discoveries of oil and natural gas a week.

The only way to find new oil and natural gas reserves is to drill wells. Since new discoveries of oil and natural gas are now only 10% of what they were as recently as 1981, this country will quickly reach a debilitating import dependency. In fact, at that low exploratory rate, in a very short time, we will shoot right past the 35% dependency level and go far higher. At that time, our economic and military security will be in the hands of foreigners.

In spite of all politics, in spite of all past rhetoric, in spite of any past prejudices, we must not allow this to happen.

The conference committee must find ways to keep the independent producer searching for domestic oil and natural gas. Both the House and Senate bills go in the exact opposite direction by taking away tax provisions critical for the independent producer to continue operating rather than giving him added incentives to continue drilling new wells in today's climate.

Would you please think about this exceedingly serious situation we are about to create for our country? If you agree, then urge upon all conferees that they must not further impair in any way the ability of the independent producer to search for new domestic petroleum reserves. We must not become critically dependent upon foreigners for our energy and security.

Sincerely,



Clifford P. Hansen